



SIMPATICO SOFTWARE SYSTEMS

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Waste and Fraud Detection Services

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**RHODE ISLAND HEALTH AND HUMAN SERVICES**

**WASTE AND FRAUD PROJECT**

**A one year summary of findings to date**

**1/2/2013**

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## **Executive Overview**

### ***Background***

For the past year, Simpatico Software Systems (Simpatico) has been performing a broad ranging waste and fraud review of Food Stamp (EBT) and Medicaid transactional data for the State of Rhode Island. Simpatico has had access to EBT data from the date range of 12/01/2010 through 6/30/2012, and Medicaid data from 12/1/2010 through 8/15/2012. The purpose of this analysis has been to find patterns of fraud within these data sets, and to also highlight areas of waste within these programs where cost containment can be realized.

Program Integrity is the phrase which is used to describe actions within social service spending programs to ensure that funds in these programs are being used for their intended purpose. Both program reputation and beneficiaries of these programs suffer when funds in the program are not spent according to program rules. For example, when Food Stamp benefits are trafficked and the money is not spent on food, children of the beneficiaries are not receiving appropriate nutrition. Programs with poor program integrity become targets of increasing fraud when people realize the program's enforcement weaknesses. The focus of Simpatico's efforts in our investigation is to provide enhanced Program Integrity for the Food Stamp and Medicaid programs.

The Memo of Understanding between Simpatico and the State of Rhode Island was signed on 11/9/2011. In May of 2012, Simpatico received the last of the critical data that we needed to begin comprehensive waste and fraud analysis work.

The Food and Nutritional Services agency (FNS), which is under the U.S. Department of Agriculture and is responsible for overseeing the EBT program, placed a freeze on Rhode Island's ability to refresh the EBT data that Simpatico has been using for this effort. FNS provides 100% of the funding for the Food Stamp program. Consequently, we are currently working with stale data, which substantially reduces Simpatico's ability to find active fraud in the system. As of the writing of this report, the FNS data freeze is still in effect, and the State is working to remedy the situation. FNS has also denied Simpatico access to a retailer data file named the Stars II file, which provides basic information about EBT qualified retailers like store size and type. Without this file, Simpatico has had to resort to Google Maps to estimate store sizes while looking into various retailer fraud schemes – a situation which has slowed us down significantly. Simpatico has had access to this file in our work for the Texas EBT system, and we frankly do not understand why access was denied for this project.

Access to data was problematic for Simpatico in other areas as well. For example, we were unable to get access to the list of incarcerated individuals within the RI Department of Corrections, yet that database is available online. Simpatico had to use the online website for the Department of Corrections to investigate incarcerated individuals receiving Food Stamp benefits, which slowed our progress down

substantially. Our investigation using stale data showed more than 60 incarcerated inmates whose EBT benefits were being routinely placed on their EBT cards every month and spent in area stores.

In May of 2012, the Providence Housing Authority (PHA) expressed an interest in seeing if Simpatico could assist them with merging some of PHA's data with Food Stamp information to help identify waste and fraud in some of the public housing programs. Memos of understanding were completed in October of 2012, and Simpatico has subsequently found substantial areas for cost recovery for both PHA and the EBT program. In PHA's Section 8 Housing program, Simpatico found \$1.7 million in under-reported Food Stamp benefits to PHA. Declaring Food Stamp benefits is a requirement for Section 8 eligibility. If the same ratios persist nationally that we have seen for PHA, it is possible that Food Stamp under-reporting for all national Section 8 housing units could exceed \$2 billion annually, or close to 15% of the total federal budget for Section 8. There appears to be a data sharing issue between the federal agencies responsible for Section 8 (HUD) and Food Stamps (FNS). These are both federal programs dispensing taxpayer dollars and one program mandates the disclosure of benefits from the other, yet due to bureaucracy the agencies do not share each other's data.

Simpatico has found substantial and very different types of both waste and fraud in the three programs for which we have data: EBT, Medicaid and Providence Housing. We have uncovered process and procedural issues within RI state government that allow individuals who should no longer be receiving EBT benefits to receive those benefits for extended periods of time after they no longer qualify. Disqualification reasons that we have seen included incarceration and death.

We have documented various EBT fraud schemes perpetrated by both the retailers who redeem the benefits and the beneficiaries themselves. FNS has some resources who pursue EBT retailer fraud in New England, although it is notable that FNS has a very small staff to perform this work. Rhode Island has made the decision to pursue an agreement with FNS called a SLEB which empowers the State to pursue retailer-based EBT fraud investigations. Roughly 30 other states have SLEB agreements in place.

Rhode Island is in the process of setting up a fraud unit (the Office of Program Oversight) within the department of the Executive Office of Health and Human Services to investigate fraud in the various spending programs within the agency.

The quality of the data that Simpatico has had to work with has been marginal. To a large extent, outdated computer systems can be blamed for this situation. The State is in the process of re-procuring the systems responsible for a lot of this marginal data, and part of the newly procured services is a cleanup of the data. As an example, the 39 cities and towns in Rhode Island show up a total of over 400 different ways in the mailing addresses for EBT and Medicaid recipients. There are even situations where cities that do not exist in Rhode Island – like Miami – show up as a Rhode Island address.

The outdated computer systems also make a full analysis of Medicaid information very difficult. The current system only supports at most 5 procedure codes for a given Medicaid claim (the State's Fee for Service data does not have this restriction). Any additional procedures performed are dropped from the data. This kind of data limitation applies to several other areas of the Medicaid information. We presume that the new system being procured now will eliminate these data deficiencies.

Where our analysis identified possible waste or possible fraud within the managed Medicaid spending programs, we learned that very little could be done since the risk of this fraud is on the managed care providers. We believe that it is in the State's best financial interest to aggressively check for waste and fraud within the managed care programs assuming that quality data is available for the purpose. As the State can identify waste and/or fraud within these programs, it should be able to lower the reimbursement rates to the vendors and force those vendors to recover the revenue by tightening up their own waste and fraud efforts.

The quality of the Medicaid data is also pressured by the diverse sources for that data. Data feeds come in from Neighborhood Health, United Health and Blue Cross/Blue Shield of Rhode Island. These feeds are not entirely consistent with each other, with some of the feeds supporting data that other feeds do not. To best conduct the kind of broad based data mining necessary to identify waste and fraud in the Medicaid program, the quality and consistency across all data feeds needs to be improved.

There are critical Medicaid areas where crucial data are not available on the State's systems. For example, multiple physician's assistants (PA) overseen by a common doctor write prescriptions that are logged in the State's data under the overseeing doctor's prescribing number, not the PA's prescribing number. One doctor, according to the data, was responsible for more than 18,000 prescriptions (this averages out to over 70 prescriptions per day). The number of PAs overseen by this doctor is large (more than 10) – a situation that most doctors say is ludicrous, yet is allowed by state laws and regulations.

Simpatico has gone outside of the data provided directly to us by the State, and used publicly available information like the Department of Corrections website to research EBT beneficiaries who are incarcerated, the Social Security Death Index to identify recipients who are deceased and other non-traditional data sources.

### ***Next steps***

Now that substantial avenues of waste and fraud have been identified, the next steps include defining what the State can do about it. Solutions include law enforcement actions, defining and using administrative actions to remove the most abusive benefit recipients from the programs and coordinating better communication between agencies (both federal and state) and enhanced data flows between those agencies.

What follows on the pages below are representative examples of our specific findings. We did not attempt to itemize everything that we have done, nor in many cases have we attempted to quantify comprehensive totals of fraud and waste. The reason we hesitate to provide totals or projected totals is because it is not clear to us what steps are willing to be taken to address the various waste and fraud schemes. We deemed it better to simply document the basic types of fraud and the prevalence of these frauds. As Rhode Island ramps up its fraud unit, further quantification of dollar amounts and potential savings can be made with far greater precision.

There are significant areas of investigation that we hesitate to even mention in this report, since we expect law enforcement action on some of these issues and we would not want to jeopardize those actions in any way. These investigations will be discussed at some future point.

## **Providence Housing/Food Stamp data project**

We have undertaken two different forms of waste and fraud analysis using data provided by the Providence Housing Authority (PHA) and the State of Rhode Island's Food Stamp data.

As part of the Section 8 eligibility process, applicants are required to disclose their Food Stamp benefits. PHA was certain that this information was being substantially under-reported and Simpatico was able to confirm that this was the case, with over 800 out of 2,000 PHA Section 8 beneficiaries under-reporting or blatantly not reporting their Food Stamp benefits.

The estimated annual total of this fraud is \$1.7 million. Nationally, there are 3.1 million Section 8 housing units. If the same ratio of under-reporting exists across the nation, it is possible that more than \$2 billion in under-reporting is occurring annually in the Section 8 program, which would represent as much as 15% of the Section 8 national annual budget.

For both PHA and the Food Stamp program, applicants are required to disclose the number of family members receiving benefits or living in the housing unit. We have found substantial differences in this data for the same family in the Section 8 versus the Food Stamp data.

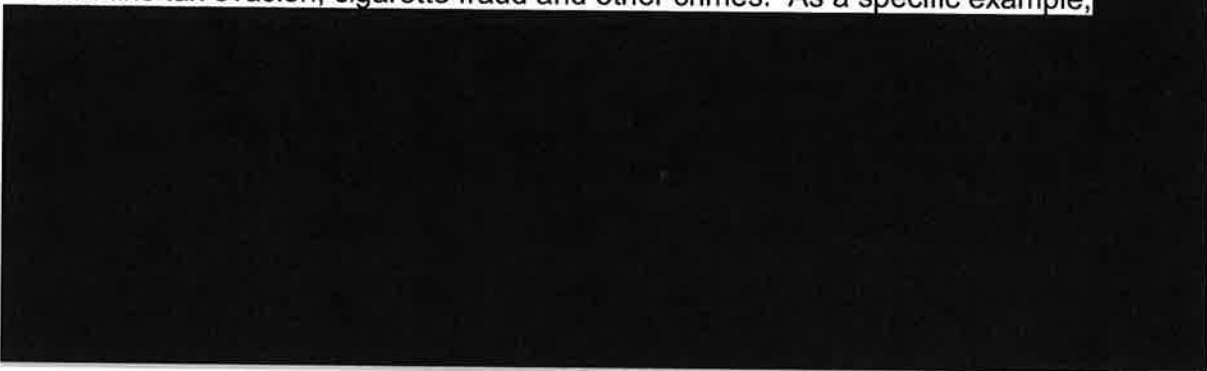
In general, beneficiaries of both programs tend to report a higher number of family members to the Food Stamp program than Section 8. It is difficult to ascertain intent from the data, but it would be beneficial to clients to overstate family size to the Food Stamp program while understating the number of individuals living in Section 8 units.

This evaluation is still underway.

Finally, PHA expressed a concern that some of their individual leases were being used by multiple individuals to apply for Food Stamp benefits, essentially setting up multiple Food Stamp cases at the same physical address. We are still in the process of scrubbing PHA's data and the Food Stamp data to perform this analysis, but expect to have results from this evaluation soon.

## ***Food Stamp findings***

It is commonly found that retailers who commit EBT fraud are also committing other frauds like tax evasion, cigarette fraud and other crimes. As a specific example,



By actively and aggressively prosecuting retailer-based EBT fraud, we believe and law enforcement has corroborated that substantial tax and other recoveries will be available.

FNS seldom brings formal charges against EBT retailers who commit Food Stamp fraud. The usual course of action is administrative, where the offending retailer is kicked out of the program. The administrative action usually does not deter fraud, as the store is often back in business soon after the administrative action under a slightly different name, or under a relative's name. Stores in the same building are often repeat Food Stamp fraud offenders, which you will find documented lower down in this section. We feel that it is imperative to provide a stronger deterrent to committing Food Stamp fraud than exists now.

In September of 2012, a Providence convenience store owner who was charged with close to a million dollars of Food Stamp trafficking pleaded guilty and received 6 months of home confinement and probation in Federal Court. In this same year, a former state legislator pled guilty to \$500,000 worth of tax evasion and will spend 30 months in prison. We believe that Food Stamp fraud and trafficking is as serious a crime as tax evasion, and do not understand why it is not treated so by our courts of law. Other states have implemented stiffer Food Stamp trafficking laws to counteract the reluctance of the Federal Courts to act in a manner which deters these frauds. It is notable that in other areas of the country Food Stamp trafficking sentences for far lesser amounts have yielded prison sentences in the Federal Court system.

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## **Outlier Investigations**

Simpatco has performed basic outlier evaluations of EBT retailers in Rhode Island, and has found candidates for fraud investigation based on their outlier status. For example, we have seen one store out of a chain that does substantially more food stamp volume than sister stores do, but the population demographics around that store do not explain the situation. In some circumstances, we have seen a store among a chain of stores

with 4 times the Food Stamp volume of the other stores, but without the additional EBT population to explain the increase.

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### **Retailer Trafficking and Redemption of Benefits**

We have tracked multiple individuals who sell their EBT cards to a store owner at the beginning of the month. We were then able to track these same cards used at a big box store in the evening, one after the other at the same cash register, for the full dollar amount of the value remaining on each card. The likely scenario here is that the store owner is using purchased cards (which are usually bought for 50% of the value on the card) to restock his shelves.

There is a data issue which if fixed would enable a much greater ability to detect this type of fraud. Some chain stores (most notably [REDACTED]) do not report which cash register a food stamp transaction occurs at. If this data omission were fixed, a much larger percentage of EBT transactions could be checked for the redemption of multiple purchased EBT cards.

Another data issue which could lead to far greater program integrity would be to have EBT vendors change their systems so that the phone numbers or IP addresses for each Point of Sale terminal be stored with each EBT transaction. We have been made aware that some retailers operate multiple Point of Sale terminals under the same FNS certification in geographically different places – like sometimes the owner's basement. This change would make it possible to identify this fraud.

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### **Deceased Beneficiaries**

EBT beneficiaries were processed against the Social Security Death Index. We found that individuals who had died continued to receive EBT benefits for sometimes many months after death – and that those benefits were being used.

It turns out that the Department of Health was not notifying the Department of Health and Human Services in a timely way of death notices. As we understand it, the two departments have worked out a new protocol to ensure more timely notification of deaths.

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### **RI Food Stamp Data Integrity Issue**

There has been a persistent gap in the eligibility data provided to Simpatico for the EBT program (eligibility information includes client name, address, biographical information, etc). For every set of EBT data that we have been given, we have seen that for roughly 10% of the Food Stamp cases for which we have transactional data, we have not been

given corresponding eligibility data. It is disconcerting that this gap has been persistent and without explanation.

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## Predictive Analysis Across Social Service Programs

While it is proven that retailer-based EBT fraud is a very likely indicator of retailer fraud in other areas like tax fraud, we wanted to perform some research to see if recipient fraud followed the same pattern of fraud committed in one social service program predicted fraud in another social service program.

We performed a study where we looked at Medicaid drug utilizations for Vicodin and Oxycontin (and all of their various related forms). We chose these two drugs because there is a strong resale market for these drugs. In this study, we identified a population of EBT recipients who the data suggest are selling their EBT cards on a monthly basis and wanted to see if their drug usage was statistically different from the Medicaid population at large.

We only looked at Food Stamp recipients who requested more than 3 replacement EBT cards in the timeframe of a year. The operating theory here is that anyone replacing their EBT cards that often are likely selling their Food Stamp benefits for cash.

RI has 1,358 Food Stamp beneficiaries who requested more than 3 card replacements in the course of a year. Of those, 868 had at least one Medicaid drug prescription filled. There were a total of 155,948 Medicaid beneficiaries who had at least one pharmacy benefit.

Of the 868 Food Stamp beneficiaries who received Medicaid drug benefits (let's call them SNAP), we found the following:

Drug	Population	# of individuals with prescription	% of population with prescription
Oxycontin	SNAP	149	17%
Oxycontin	All pharmacy beneficiaries	6,916	4%
Vicodin	SNAP	234	26%
Vicodin	All pharmacy beneficiaries	13,662	8%

The difference in the percentage of the Food Stamp trafficking population receiving these prescriptions versus the entire Medicaid population's percentage of these prescriptions is significant and beyond statistically meaningful, suggesting a strong predictive link of fraud in one program leading to fraud in other programs.

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### **Fraud Analysis using Beneficiary Demographics**


We have found substantial numbers of homeless Food Stamp beneficiaries who spend the bulk of their monthly benefits at meat markets in one transaction. A known form of Food Stamp trafficking involves reselling purchased meats to restaurateurs and other interested parties very nearby the store where the Food Stamp purchases have occurred.

We also have seen homeless beneficiaries using the bulk of their monthly benefit to order mail order gourmet meats. We are uncertain to where these meats are being shipped, and would recommend an effort to find this out.

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### **Inmates using Food Stamp Benefits**

A study was performed to determine whether incarcerated individuals were being provided with Food Stamp benefits and if those benefits were being redeemed. We found more than 60 inmates whose monthly benefits continued once they entered prison, and those benefits were actively being spent at stores.

As an example, 

store in question is a very likely candidate for Food Stamp trafficking.

At this same store, another inmate's benefits were also being spent down in far smaller dollar amounts, indicating not so much trafficking on the store's part but certainly the improper use of benefits by the person bearing the inmate's card.

Since the data we are using is stale, the number of inmate's benefits being utilized is expected to be higher than what we have found.

The solution to this problem is for the Department of Corrections to communicate inmate information to the Department of Health and Human Services upon inmate intake. This communication should permit DHS to take the appropriate actions to suspend or terminate the inmate's benefits and shut down access to the inmate's card, if appropriate.

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## **Food Stamp Return Fraud Impacts**

A fraud scheme has been uncovered that defrauds [REDACTED] stores, but not the Food Stamp system. This fraud exploits a shortcoming in the State's EBT system and the [REDACTED] system.

Basically, there are 2 homeless individuals who make a purchase at a single [REDACTED] and then make repeated Food Stamp Return transactions based on that one purchase at literally every [REDACTED] in the area (as many as [REDACTED]). This happens every month, month after month.

Their average take away is \$1,200 annually, each.

It is likely that this fraud is being used by others as well. Once a system weakness is uncovered, it does not take long for word to spread within the community of individuals inclined to take advantage of weaknesses.

[REDACTED] should be notified, as well as the State's EBT vendor.

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## **Retailer Fraud –**

We tracked individuals from all over Rhode Island who came to a particular [REDACTED] and frequently spent \$60 to \$200 in Food Stamp benefits. This [REDACTED] had little in the way of wholesome food (it had only 2 small aisles of mostly junk food) and did not even have grocery carts or even market baskets. This [REDACTED] was likely selling [REDACTED] for Food Stamp benefits and the [REDACTED] had its EBT certification revoked by FNS. In the span of a year, this same [REDACTED]

A smoker in the Simpatico office went to buy cigarettes at a smoke shop that had an EBT certification and displayed odd characteristics of Food Stamp purchases. The shop rang her cigarettes up as food, indicating a likely tax evasion scheme, as well as almost certain Food Stamp trafficking as well (the Simpatico employee did not have an EBT card).

For both of the stores in question above, they had an older cash register that required the operator to enter in the item category (grocery, general merchandise, etc) and the registers did not utilize bar codes or any other automated way to ring up purchase transactions. These older registers make it far easier for retailers to commit both Food Stamp and tax frauds.

## **Medicaid findings**

### **Community Health Center Dental Services**

RI compensates the Community Health Centers (CHC) for dental services not based on the services provided, but based on an 'encounter fee' whenever a customer walks through the door.

We looked at all dental encounters at all CHCs and compared the encounter fees paid for each visit versus the defined Medicaid benefit payable to a private practice dentist for each procedure performed by the CHC for each encounter (reimbursement rates taken right from the DHS website). We believe that encounter fees for CHCs are set by the Federal government.

In short, it looks like the State overpays by more than \$4.5 million for dental services provided by the CHCs when compared to the published Medicaid reimbursement rates. Of course, the Medicaid reimbursement rates for Dental Services are substantially lower than most dental providers are willing to perform the work. Even if the State raised the Medicaid reimbursement rates for dental services, it looks like the State can still save millions by moving dental services out of the CHCs. For a great many dental procedures provided at the CHCs, the reimbursement made for those procedures exceeds the rate charged by private practice dentists charging a customer the full, undiscounted fee for the same procedure.

Health Center	Total Encounters	% Transactions where Encounter Fee > Medicaid Reimbursement	Total \$ where Encounter fee > Medicaid Reimbursement
	7,584	90.7700	625,253.20
	6,604	93.1102	682,712.13
	5,204	93.7356	390,731.46
	8,824	88.8486	844,531.81
	8,095	83.6072	464,542.73
	21,244	92.8027	1,642,119.78
	1,603	94.1984	129,710.22
	2,990	85.0836	211,896.11

Of similar interest, we investigated the number of 'return visits' required by CHCs for their dental patients. In general, since the CHCs are compensated for services based on the number of times one of their clients comes through the door, we quantified on a per patient basis the number of return visits in our database.

The first column is the total number of annual visits per individual; the second column is the total number of individuals who visited the dental clinic that number of times. Bear in mind that in general, each visit is worth roughly \$140 to the CHC.

**Number of Individuals Visiting Dental Clinic *by* number of Annual Visits per Individual**

<b>Number of Individuals</b>	<b>Annual Visits per Individual</b>	<b>Cost of Visits (based on \$140/visit)</b>
6579	1	\$ 921,060
5513	2	\$ 1,543,640
3817	3	\$ 1,603,140
2369	4	\$ 1,326,640
1443	5	\$ 1,010,100
827	6	\$ 694,680
481	7	\$ 471,380
318	8	\$ 356,160
173	9	\$ 217,980
125	10	\$ 175,000
78	11	\$ 120,120
45	12	\$ 75,600
23	13	\$ 41,860
17	14	\$ 33,320
12	15	\$ 25,200
13	16	\$ 29,120
4	17	\$ 9,520
4	18	\$ 10,080
6	19	\$ 15,960
2	20	\$ 5,600
1	21	\$ 2,940
2	22	\$ 6,160
3	23	\$ 9,660
1	25	\$ 3,500
1	26	\$ 3,640
1	27	\$ 3,780

## **Physician's Assistants**

The State's rules, laws and regulations surrounding Physician's Assistants (PA) allow for one doctor to oversee a large number of PAs, more than most physicians feel is wise.

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## **MRI Machines**

The State stopped keeping records and tabs on MRI machines. These machines are now allowed to be owned by individual doctors and practices, and it is very difficult to determine how bad the self-referral problem may be where physicians order expensive testing from equipment that they now own.

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## **Finding Fraud within Managed Care**

Since so much of the State's Medicaid spend is now done via Managed Care agencies and vendors, the State needs to develop tools to determine if the compensation rates paid to these agencies and vendors is appropriate for the services delivered and to ensure that sufficient attention is paid by these agencies and vendors to reducing costs by looking hard at waste and fraud scenarios.

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## **Eleanor Slater Hospital**

The Eleanor Slater Hospital is an extremely expensive option for long term care when compared to the State's nursing homes.

In the Medicaid data that we examined, Eleanor Slater had an average cost of \$957 per day per patient, compared with an average nursing home cost of \$155 per day per patient. While we understand that certain of Slater's patients require care that is more expensive than most, we are also aware that Slater runs far below maximum patient capacity and that fact contributes greatly to the higher per patient cost at the hospital.

We believe that Rhode Island should investigate whether closing Slater hospital and moving those patients into other nursing homes or hospital settings when necessary can yield substantial cost savings for the state. We have hospitals in this state that are severely under capacity, and making this move might not only save the state money but also stabilize a necessary community hospital at the same time.

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## **RICLAS**

The RICLAS system is a very expensive and unique system when compared to the rest of the country for the provision of group homes to Rhode Islanders with developmental disabilities.

What makes RI so different from the rest of the country is the fact that the State of Rhode Island actually owns the physical homes for a great many of these group homes. In every other state, the operator of the group home owns the physical infrastructure for the home and is on the hook to pay for necessary repairs. The State of Rhode Island must pay to maintain these homes. To add to the cost calculation, Rhode Island does not appear to reap a cost savings in terms of what it must pay to the operators of the group homes relative to other states. It would stand to reason that if the operators do not own the physical homes and do not have to pay for maintenance of the homes that the annual cost to the state to these operators should be discounted to other states, but that is not happening.

The State of Rhode Island can also realize cost savings by moving group home residents who require extra staffing needs into a common facility, bringing down staffing costs.